FINAL TRANSCRIPT

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PRESENTATION

Scott Schmitz - *Morgan Stanley - Analyst*

All right. Thanks, everyone, for coming. My name is Scott Schmitz, I'm with Morgan Stanley's enterprise and systems hardware group. Today with us is Rackspace Hosting. Just before we start, I need to read one disclosure. Please note that all important disclosures including my personal holding disclosure and Morgan Stanley disclosures appear on the Morgan Stanley public website at MorganStanley.com/research and disclosures. So now that that's out of the way, with us today, (inaudible) is Lanham Napier, the Chief Executive Officer, and Bruce Knooihuizen, Chief Financial Officer. How did I do.?

Bruce Knooihuizen - *Rackspace Hosting, Inc - CFO, SVP, Treasurer*

That was all right.

Scott Schmitz - *Morgan Stanley - Analyst*

All right, so the format is Lanham is going to give us a brief overview and then we'll jump into q-and-a.

A. Lanham Napier - *Rackspace Hosting, Inc - President, CEO, Director*

Well, thank you for coming. We love to talk about our company. Our company is now a ten year old company. I've been there for nine years, okay. So I'm not quite a founder, next time founder is a much better gig than my current one. So as we look at the business today, our mission and purpose is we are a managed services company. Our hosting business has grown organically to where now, we're about a $0.5 billion a year revenue company. We just turned in our numbers for Q4.

Basically, we see it as we are the home of [fanatical] support and so our desire with our customers, today we serve 56,000 customers, is to provide them a productized tailored service that allows them to partner with us for a good chunk of their internet infrastructure. So if you look across our footprint today, we operate in the US, in the UK, in Amsterdam, in Hong Kong.

We have grown organically through our history, we've done a couple of acquisitions but they weren't for scale, they were really for technology capability. And so what has happened in our business is we started primarily as a managed hosting shop to SMBs, we have grown into enterprise and our future -- our opportunity is really clustered around this combination between our existing managed hosting set and cloud computing.

We are the only provider in the marketplace today that is providing both of them in an integrated seamless fashion. Now this is still a work in progress, but what happens is Cloud is a brand new paradigm; it is a new way for companies to buy IT. So in the past, companies and CIOs and IT thinkers really did IT themselves. What's happening now is that we are providing computing as a service to those customers; they can mix and match different service levels on different types of devices to really provide a tailored fit for them.

At first, this was all on machines and infrastructure dedicated to that customer. What the Cloud does is pull these machines together and get a higher asset utilization form that customer going forward. So if you look at our results, last year, we grew the revenue almost 47%. We grew our adjusted EBITDA a little over 50%. We had an investment phase the first half of the year, so our net income grew a little over 20%.

If you look at the scaling that we achieved in the business, the second half of last year, sort of Q3 versus Q2 and then Q4 versus Q3, we had increasing margins and returns on capital. So as part of our disclosure, we provide all the key metrics that we follow -- almost all the key metrics that we follow in the business as a way for you to understand our model and what we are doing.

When we look out into '09, I imagine you will all ask us questions about the recession, how this is impacting the business et cetera, so I anxiously await those. I think that part of what we're seeing is we started feeling a slowdown in growth last year, in the spring of '08. So we went to work on scaling our managed business. So if you look at our business today, it is 95% managed hosting, 5% Cloud. Our plan this year is pretty straightforward. Within our managed hosting business, we still expect that business to grow. It is not going to grow at the rates we experienced historically but we expect it to generate higher margins and returns.

Our Cloud business is experiencing hyper growth. If you look at Q4, it grew a greater -- on an annualized basis, greater than 120% per year. We think the combination of these two creates a compelling future. So our plan is very simple. We are going to push for profits and returns on capital on managed, we are going to make sure we have rapid traction to Cloud, we believe that positions us well for this emerging technology trend. So there, right in five minutes.

Scott Schmitz - *Morgan Stanley - Analyst*

Perfect.

A. Lanham Napier - *Rackspace Hosting, Inc - President, CEO, Director*

Okay.

QUESTIONS AND ANSWERS

Scott Schmitz - *Morgan Stanley - Analyst*

All right, well let's -- you touched on some of the financial metrics you use to evaluate business, maybe you can expand on that a little bit and tell us what are these key metrics you are looking at and how are you evaluating new business against these metrics?

A. Lanham Napier - *Rackspace Hosting, Inc - President, CEO, Director*

Okay, so we have a disciplined approach to the marketplace. Just to give you some competitive dynamics, in the SMB market, we tend to charge a 20% to 30% premium relative to the competitors. Those competitors are a very fragmented group. At the enterprise end of our business, we tend to be pari passu or a slight discount, and so in the upper end, we are competing with somebody like AT&T, okay, or [Sabbath].

In the lower end, it's a company like the Planets or Datapipe. So when we go to market, we have -- it is a fully allocated all-in pricing tool where we evaluate our sales reps and they basically get a grade, and the grade is on the value of that customer and not the revenue of the customer. The grade is driven by our expected return on that customer, not booking that deal.

And so the question becomes, how do we measure these metrics? It is literally a day-by-day month-by-month customer-by-customer evaluation, and we are not going to violate that discipline. That discipline is what got us here, so if you look at our historical financials, you can see the power of the model in terms of the margins and returns on capital we generate; and within the industry, I think we're the only company that's generated a return on capital -- particularly consistently. And so, we aren't going to deviate from that. That is our bread and butter.

What enables us to do this is we have created a point of difference in the marketplace around fanatical support where we are recognized as providing the best service experience in our industry, and the best service experience creates customer loyalty to where they stay around, they stay online longer, which reflects a lower churn; they refer their friends, which reflects lower customer acquisition costs. By staying around, we make profits on them, so it is really the loyalty model we've created around fanatical support is a wonderful engine in terms of creating value.

Scott Schmitz - *Morgan Stanley - Analyst*

So then just to follow up on that, is the pricing environment getting that much more -- is it making it that much more difficult for you guys to maintain this discipline and are you having to walk away from business as people -- ?

A. Lanham Napier - *Rackspace Hosting, Inc - President, CEO, Director*

We have had the same discipline. So I think the way I would characterize the environment today is that there are fewer bona fide buyers out there. Okay, so if you look at our sales cycle, it is about the same -- closed rates down a little bit, but it is not material. Really, what's happening from our point of view is that there are fewer bona fide buyers of services out there.

The part that works in our favor is that as a productized tool for the IT department, we help IT department save money. So every CIO in the country is under pressure given this budget, you got to do more. So hosting is a good tool to help them achieve that. So there are some counter-cyclical things where we have opportunities particularly in the enterprise end of our business as customers look to consolidate vendors, when we get up against IBM or CSC or something, we are a shockingly big discount to them. Okay, so we can't do everything they can do, but in those areas, [Russia] -- in those areas where our service set is applicable, we've got a really good opportunity.

Scott Schmitz - *Morgan Stanley - Analyst*

Can you talk about what's going on with the churn rates and was up a small amount in 2008 -- but I don't think it's a big surprise given the environment. And then as a related question, what's the switching cost for a customer? Is there a price point at which they go to a different customer. Once they're with your platform, do they have to stay with your platform?

A. Lanham Napier - *Rackspace Hosting, Inc - President, CEO, Director*

Yes, and I'll let you say something too, Bruce.

Bruce Knooihuizen - *Rackspace Hosting, Inc - CFO, SVP, Treasurer*

Okay, good. Thank you.

A. Lanham Napier - *Rackspace Hosting, Inc - President, CEO, Director*

On churn rate, looking at -- churn's up a little bit. So it went from 1.2 to 1.3 from Q3 to Q4. All right, we are not losing to the competition; we are losing to the recession. And the way that's manifested itself is that customers sign up for a ten month project and turn it off, okay? Customers are under pressure today, every business like -- unless you're the repo guys, are under pressure today. So that we have -- we do feel that pressure now. I would say, up to this point, I feel like churn is pretty much in check. Despite all the craziness out there and all the headlines, it went from 1.2% to 1.3%. So it hasn't moved dramatically.

Scott Schmitz - *Morgan Stanley - Analyst*

And then just to follow up on the switching cost.

A. Lanham Napier - *Rackspace Hosting, Inc - President, CEO, Director*

Yes, sorry. Switching costs varies by customer and it varies by the solution we're providing. So the bigger the solution, the smaller the customer's internal IT capability, the higher the switching cost. There is a switching cost for every customer because once we are running it for you and it is working, the migration is the enemy of uptime. Change is the enemy of uptime.

So we run web apps and mission critical apps for business customers, so the last thing they want to do is migrate from a stable environment to a new one and introduce risk and things. So there is always a switching cost. The more we are doing it for you, if it is your eCommerce app, your back office Oracle implementation, your mail, the more that we get into that, the higher the switching cost.

Bruce Knooihuizen - *Rackspace Hosting, Inc - CFO, SVP, Treasurer*

Just to sort of add on to that, when we think about churn because that is an important measure in our business, and we look at the economics of churn and if you break it down to sort of a square footage basis, we spend on each customer roughly about $3,000 in capital expenditures. Now that capital is to both the data center -- their pro rata share of the data center as well as their customer equipment. On that same square footage, we average about $525 to $550 per month per subscriber.

So based on those economics and the fact that we have about a 27% or 28% profit margin and you tax affect that, it takes us in total of about 12 months to recover the cost for the data center for that customer and about 27 months to recover all of our costs. So when you think about the churn rate of 1.3%, which has been the high point over the last few years, it had been running closer to 0.9 a year ago, the average customer stays with us about 38 months. So when you think about that, every month after the 27th month is pure profit to us. And so it is very important from us to make sure that we take care of fanatical support, we keep customers around as long as we can.

Scott Schmitz - *Morgan Stanley - Analyst*

Okay, great. Let's switch and talk about the Cloud a little bit. Can you just talk about what your vision is and what your initiatives are in that area?

A. Lanham Napier - *Rackspace Hosting, Inc - President, CEO, Director*

Yes. Cloud -- it is a big term, and people are throwing it around. Let me provide for you our vision of it. And what happens is Cloud is really a pool of computing user resources consumed as a service and a utility fashion when you want it. You pay for what you use.

And so what we are experiencing in our business, we started our cloud business three years ago. On dedicated infrastructure, people tend to run apps customized for their business. That's how our company got started. On the Cloud, we have early adopters, the ubergeeks writing to an API to really do a discreet project. It's a lot of tested dev today. Our number Cloud app is Mail, we are running 1 million mailboxes for businesses and they're paying for every one of them.

So what we see happening is that our existing customers says we want you to manage our database on dedicated machines in your environment but we want our webservers to have an ability to burst into the Cloud. So that is the capability we are working on providing. And we think the combination of these two really is a killer app. Because in able to provide both sets of services in the same data center, we removed some technical barriers around latency and whatnot. Today, it is about getting the right service for the right IT workload.

So the Cloud today, where it is very applicable, is we have customers that are agencies, for example, that run promotional campaigns for a new brand launch and the Cloud is a wonderful tool to be able to scale up and down seamlessly. For things that are fairly straightforward, okay? So these are simple sites, it will be a pharmaceutical company that for each one of their drugs will have an individual site. They kind of access both [shareware], that as it hits a spike in demand, this is able to adjust virtually instantly. Okay? So the Cloud is already there for those capabilities. It is already there for a standard app like mail and we really see the combination of those two being able to provide a great fitting tool for different IT workloads.

Scott Schmitz - *Morgan Stanley - Analyst*

You have almost twice as many customers on the Cloud side, it is only 5% of your revenue. Can you talk about how it stacks up to your metrics for return on capital and profitability?

A. Lanham Napier - *Rackspace Hosting, Inc - President, CEO, Director*

Yes. First of all, I'd say it is early in the game, okay? So if you look at our financials today, we have managed our fourth quarter margin, if you look at our EBITDA margin, adjusted EBITDA margin, it was 29%. We had a managed hosting margin in there of 31, and so the Cloud was a net operating loss for us in the fourth quarter.

There are elements of the Cloud that when you work on a capital turns basis, are significantly more efficient than what we experience and managed simply because the utilization rate on the resource itself is higher in the Cloud than it is in Managed. All right? So portions of our Cloud are more profitable than our Managed business. I'd say that what we have to do is figure out how to tailor our service delivery mechanism in this hybrid hosting future to sort all that map out. And we haven't sorted it our yet, it is still a to be determined exercise at this point.

Bruce Knooihuizen - *Rackspace Hosting, Inc - CFO, SVP, Treasurer*

But one of the keys in the Cloud initiative is that from a capital efficiency standpoint, it is much more efficient than sort of the dedicated hosting. Keep in mind from a dedicated standpoint, when you get a machine, you keep a certain amount of excess capacity. In fact, if you look at most of the machines that we run, the usage part is probably 20% to 30%, but when you get to the Cloud computing, you can access much more of the -- using computing power of the computer and so the usage actually approaches 100%. Yes, sir?

Unidentified Participant

(inaudible question - microphone inaccessible)

A. Lanham Napier - *Rackspace Hosting, Inc - President, CEO, Director*

It is unprofitable today, so it is pulling that EBITDA margin down.

Bruce Knooihuizen - *Rackspace Hosting, Inc - CFO, SVP, Treasurer*

But it is getting close to breakeven. It is roughly [new] and included in that is our mail hosting business.

A. Lanham Napier - *Rackspace Hosting, Inc - President, CEO, Director*

[If I might say] -- right now, our Cloud business is growing in excess of 120%, we aren't pushing for profitability there or the plan this year is basically our managed hosting business, we want to scale it, we want to make it more profitable and more focused on returns and the Cloud business, we are focused on rapid traction. So we want to make sure we are assembling the model appropriately that in the long run it's absolutely a very valuable business, okay? But we are more concerned about traction today in that than we are in incremental margin from it.

Scott Schmitz - *Morgan Stanley - Analyst*

Are there other questions from the audience? Yes, go ahead?

Unidentified Participant

(inaudible question - microphone inaccessible)

A. Lanham Napier - *Rackspace Hosting, Inc - President, CEO, Director*

Yes, there are a couple of countervailing forces at work. One thing we are doing with customers, if you look in the SMB market place, for example, we are helping customers right size their config. So the way I compare it -- as customers look to do more work today, we are helping them figure out how to do it on the existing infrastructure without adding more.

In years past, the customer would just want to go add more., okay? The reality is today, they have excess utilization there, let's use it. So we feel like in the short run, that is the right decision. In the long run, it is the right decision because it maintains that customer relationship that we can form later. Okay? So I think that outsourcing in our set of services actually does have a counter-cyclical play to it. And that I think the recession as it puts pressure on IT budgets will force people to consider hosting. It is just not as good as when people are doing 50 times as many projects. That's why (inaudible) there are just fewer buyers out there.

Unidentified Participant

(inaudible question - microphone inaccessible)

Bruce Knooihuizen - *Rackspace Hosting, Inc - CFO, SVP, Treasurer*

That's monthly.

A. Lanham Napier - *Rackspace Hosting, Inc - President, CEO, Director*

Monthly.

Bruce Knooihuizen - *Rackspace Hosting, Inc - CFO, SVP, Treasurer*

Monthly.

Unidentified Participant

(inaudible question - microphone inaccessible)

Bruce Knooihuizen - *Rackspace Hosting, Inc - CFO, SVP, Treasurer*

Yes.

Scott Schmitz - *Morgan Stanley - Analyst*

[So we'll go] here and then here. Go ahead.

Unidentified Participant

(inaudible question - microphone inaccessible)

A. Lanham Napier - *Rackspace Hosting, Inc - President, CEO, Director*

Yes, okay. So who do we compete with? There are many entrants into the Cloud who all have a bit of a different angle? Okay? Amazon I think has done a wonderful job, I give them a full check plus, okay? Google has app engine out there and Microsoft's Cloud is coming at some point. Sales Force has done well with the Force platform, so I think what we have right now is we have different companies with different takes on it, okay?

So we come across all of them in one way or another. I think the difference is it is going to be a huge market and there is plenty of space for Rackspace to carve out a position for itself, all right? So I'm not worried about -- we are going to do flanking moves, not head-to-head moves.

Okay, well, here is what it is. I think the combination between being able to manage hosting services on dedicated machines for your office web apps as well as Cloud environments for your standard apps is going to make all the difference. Why? Because the uptake -- part of the uptake we have right now from customers that's asking us to do this work because nobody else can.

All right? I think it is unlikely that people that aren't in the hosting business are going to want to get into it. Right, it's a hard business. Our point of difference really is we are a combination of technology and service experience to try to knock the customer's socks off. We call it fanatical support, all right? So our point of difference around that service experience is durable. We will continue to invest in it and so we will carve our a position of that intersection.

The technology, we have acquired it, or are growing it ourselves. So we started our Cloud business -- three to four years ago is when we started making the first investments in it, but it is now a Cloud site's [host of offering]. The other technology -- we acquired Webmail in 2007, we acquired Jumbo Disk and Slice Host last year. So some of it we've grown, some of it we've purchased --

Scott Schmitz - *Morgan Stanley - Analyst*

We have another question here.

Unidentified Participant

In your customer base, what is the next wave of workflows that will move to the Cloud? Is there an inflection point and is the speed of that transition more sort of held back by customer comfort around things like security and SLAs or are there more product or technology factors like the ability of the middleware to support the elasticity, et cetera?

A. Lanham Napier - *Rackspace Hosting, Inc - President, CEO, Director*

Yes. So it started simple sites or test and dev. Now, the next wave is really this ability to burst into it. Okay? So you have your content database managed in our intensive segment, you have your web server capability burst into the Cloud. They are absolutely department on which customers you talk to, privacy and security concerns about having their data reside in the Cloud, particularly when you get to some compliance matters, all right? So we absolutely see those constraints but right now, the next wave that we are experiencing is really this hybrid combination where people want to use the capability of each.

Scott Schmitz - *Morgan Stanley - Analyst*

Other questions? Go ahead. [Go again?]

A. Lanham Napier - *Rackspace Hosting, Inc - President, CEO, Director*

Yes, I can hear you. I don't know if we need --

Unidentified Participant

(inaudible - microphone inaccessible)

A. Lanham Napier - *Rackspace Hosting, Inc - President, CEO, Director*

Yes, we have a partner program and basically, the way it works is we go to market with them as opposed to them necessarily reselling what we do, okay? So the part where we feel like it, we created a compelling outcome for us and our partner. We have a lot of independent app developers out there that will be working on a piece of code for a company like GE or what have you and then we are the hosting partner for them for where that app is going to go with.

So that has worked really well for us and that type of symbiotic relationship exists from agencies to marketing companies to app developers, there is a little bit of reselling with respect to -- let's take this config and then sell simple hosting plans like to customers, but that's a pretty small portion of all business. The partnership stuff that works is much more where an app developer creates a custom piece of code for a company and they need to find the right infrastructure environment for it.

Scott Schmitz - *Morgan Stanley - Analyst*

Bruce, maybe a question for you. Can you tell us how you are thinking about managing your operating expenses versus what we could see -- some variable aids in the revenue growth over the next several quarters?

Bruce Knooihuizen - *Rackspace Hosting, Inc - CFO, SVP, Treasurer*

Well, let's first start with revenue. We have seen a lot of variability and I would say it was more of a trend unfortunately, trending downward as the recession sort of affected us. In the fourth quarter, we grew about 3.2% sequentially over the third quarter.

Now, we get about 25% of our revenue from overseas, mostly from the UK, and last year, we are hit quite hard with the changing valuation of the pound relative to the dollar. If you put it on more of a normalized basis, the fourth quarter grew by about 8%. From a bottom line standpoint, because we do have operations over in the UK, we have a natural hedge and so when you get to net income, the impact is very small because our expenses obviously are a lot lower.

In terms of managing the revenue, we are going to continue growing our revenues as best as we can, keeping in mind that we have to discipline around the pricing policies, around our efficiency of using sales and marketing; and so to the extent that sales and marketing and the general market itself is a little bit slower, we are going to have slower sales results, but we will keep, again, attracting those that make money for us because of our discipline.

From the expense standpoint, Lanham already mentioned that in the managed hosting business, [with the] slower growth, we are driving for efficiency. When we are growing at 50% or 60% per year, quite honestly, we are spending our time just acquiring the customers. This gives us the chance to go back now and redo some of our policies and some of our procedures to be much more efficient. And so when you think about our margins and our managed business in the fourth quarter, it was about 31%. We believe we've got some initiatives in place so that throughout 2009, we should see some margin expansion due to some of those efficiency measures.

Scott Schmitz - *Morgan Stanley - Analyst*

Now, on the CapEx side, other than the $75 million to $100 million you talked about that's estimated for customer year, how variable is that number?

Bruce Knooihuizen - *Rackspace Hosting, Inc - CFO, SVP, Treasurer*

Well, in addition to the customer equipment and by the way, the customer equipment is very variable as well based on our successes. Aside from that, we have got another $30 million to $40 million of CapEx for data centers, for software development, capitalized software and for office space, and each of those is very controllable from our standpoint.

We are not committed to really having to spend any of those. Now, having said that, when you consider our software cost which we expect to spend between $10 million and $20 million, a lot of that is going towards our Cloud initiative and in our company, the Cloud initiative is very protected. If conditions get so bad and we need to scale back, we will, but we think that that's a real investment in our future.

In terms of the data center, this year, you may have seen that we announced a deal with DuPont Fabros. In the past, we used to build our own datacenters, but if you find the right partner, from our standpoint, it is just a question of economics and today, it was more economical for us to sign an agreement with DuPont Fabros and lease their space rather than building our own data center.

What does that mean? That means in the past, we would have spend $30 million to $40 million upfront to build the shell of the data center and then filled it up over time and the revenue would come over the next ensuing few years. There is a much closer tie between the capital expense and our revenue through a leasing arrangement. Does this mean we will always lease space? Again, as I said, it is purely an economic issue for us with the right partner. In the future if leasing data space is more expensive than building, we will build, but if leasing is the right answer, that's what we will do. It's whatever is best for the shareholder in terms of our datacenters.

Scott Schmitz - *Morgan Stanley - Analyst*

Last questions form the audience? No? I have a few more here. Just on the credit side, you have a large customer base, can you talk about what you're seeing, is there a credit risk from any of your customers and what are you doing on the accounts receivable side?

Bruce Knooihuizen - *Rackspace Hosting, Inc - CFO, SVP, Treasurer*

Sure, from a credit standpoint, we have seen some increases in our bad debt, but still they are well within reason and probably from an industry of very low levels. Our current uncollectable rate is just a little over 1%, and so I think if you compare it to other industries and other companies, and these times, even in good economic times, it is a good credit policy.

In terms of our receivables, when you look at them, are they lengthening? They are not really lengthening. Our day sales outstanding are still about the same as they have been. We've got some tight policies around when we write off accounts and we will recognize that expense on our statements. And so I think from a collecting standpoint, from a customer standpoint, we've got solid receivables. Keep in mind, we are a premium priced provider in a lot of areas of our company, so that sort of self-selects those customers that really require our service and that have a healthy business and we are seeing that in our receivables.

A. Lanham Napier - *Rackspace Hosting, Inc - President, CEO, Director*

One thing I'd add to that, we don't have a single customer greater than 1% of sales, so we don't have a customer concentration. So this is part of the beauty of our model and expansionary times, we are able to grow rapidly through customer acquisition in [slower times]. We don't have any concentration, the CapEx self collects, so the cash flow characteristics improve as things grow. So we've got a very diversified base.

Scott Schmitz - *Morgan Stanley - Analyst*

Okay, and then I think just one last question to kind of wrap it up here. You had -- you IPOd in the last year, kind of a difficult time, a little time to prove yourself in the public --

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A. Lanham Napier - *Rackspace Hosting, Inc - President, CEO, Director*

It wasn't difficult when we started, but by the end, it was difficult.

Scott Schmitz - *Morgan Stanley - Analyst*

So how are you positioned coming -- once the economy improves and is there anything else that you -- that the market might be missing or that you'd like to just kind of talk about?

A. Lanham Napier - *Rackspace Hosting, Inc - President, CEO, Director*

Well, okay. I'll tell you what we are really pumped about, all right? Is that within our industry, we got the best model. We absolutely feel misunderstood but that really is for you all to assess. You are the gurus here about evaluating different business models, but we feel like our systems performs really well. There is more work to do and in terms of increasing the value that our managed hosting business delivers, and so we are doing that in terms of return to profitability.

What I am most excited about is this hybrid hosting future, which a few of you all have asked about because I think that really changes the game. What's happening right now in our business, when the world is turned upside down, companies just like ours enter into CIO decisions that normally we are not considered for. We are seeing this today on our enterprise end of the business. I think consuming computing as a service is going to do this. Anytime the world turns upside down, it is a great chance to implement change. So for our company, we are doing it.

We've got a good model, we are going to make that model better. We believe computing as a service will cross the mainstream, we think Cloud is going to accelerate that, the recession force is pressuring a tipping point around it. So actually, we think that we are increasing the value of our traditional business by positioning ourselves for the rapid adoption of Cloud. And so it is really a two-part playbook that we feel really good about. This year is harder than last year, absolutely, for everybody it is. Okay? But we don't for a second let that get us down. We actually see lots of opportunity that historically we [won't have heard of].

Scott Schmitz - *Morgan Stanley - Analyst*

Okay, thank you, guys, very much. I think that does it for time.

A. Lanham Napier - *Rackspace Hosting, Inc - President, CEO, Director*

Okay, thank you.

Bruce Knooihuizen - *Rackspace Hosting, Inc - CFO, SVP, Treasurer*

Thank you.
